# STATE AGENCY REPORT

Sun Health Inc. Dialysis Center
Joliet, Illinois
Project #99-046

## I. The Proposed Project

The applicant proposes to add 5 stations to an eleven-station ESRD facility located in Joliet, Illinois.

The total estimated project cost is $165,500.

## II. Summary of Findings

A. The State Agency finds that the proposed project does not appear to be in conformance with the provisions of Part 1110.

B. The State Agency finds that the proposed project does not appear to be in conformance with the provisions of Part 1120.

## III. General Information

The applicant is Sun Health Inc. Dialysis Center. The project will add 5 stations to an eleven-station chronic ESRD facility in Joliet, Illinois. Sun Health Inc. Dialysis Center is located in Planning Area HSA 9. The State Agency has determined that there is an excess of 9 stations in Planning Area HSA 9.

This is a non substantive project which is subject to both Part 1110 and Part 1120 review.

The project has not been obligated and authorization to obligate is not requested upon permit issuance.

A public hearing was held on this project on August 31, 1999.

IV. The Proposed Project - Details

The applicant is proposing to add 5 stations to an existing eleven station Esrd facility in Joliet, Illinois. The facility is located in 4,276 GSF of rental property located at 2121 Oneida Street, Joliet, Illinois. The proposed stations will be added within the existing space.

V. Project Sources and Uses of Funds

The applicant proposes to fund the project with $165,500 in cash and securities.

Table I

| **Proposed Use of Funds** | **Amount** |
|---|---|
| Preplanning Costs | $7,500 |
| Modernization Contracts | 75,000 |
| Architectural/Engineering Fees | 3,000 |
| Consulting and Other Fees | 8,500 |
| Movable or Other Equipment | 71,500 |
| Total | $165,500 |

VI. Review Criteria - Chronic Renal Dialysis

A. Criterion 1110.1430.a, Data System

This criterion is not applicable to existing renal dialysis facilities that are relocating or adding stations.

B Criterion 1110.1430.b, Minimum Size of Renal Dialysis Facilities

This criterion is only applicable to the establishment of a renal dialysis facility.

C. Criterion 1110.1430.c, Variance to Station Need

The State Agency has determined there is an excess of 9 stations in Planning Area HSA 9; therefore, the applicant must address the variance to station need. According to this criterion, the applicant must document that additional stations are needed to reduce high utilization of an existing facility to the minimum utilization level detailed in the rule.

According to the most recent data available, the applicant is operating above the 80% utilization standard as required by the State Agency. The applicant has indicated that there are 54 patients' currently receiving services at the facility. With this current patient workload, the addition of 5 stations will cause utilization to drop to 56.6 %. The applicant has documented that an additional 13 patients will require dialysis services within the very near future. If these 13 patients are added to the 54 patients already receiving services, and 5 stations are added to the 11 station facility, the utilization of the facility will still not meet the 80% State utilization standard. For the applicant to attain the 80% utilization standard, the applicant must have 76 patients requiring services. It appears that the addition of 5 stations will cause the applicant to operate at less than the minimum utilization standard required by rule; therefore, the applicant has not documented conformance with the variance to station need.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

D. Criterion 1110.1430.d, Support Services

This criterion is not applicable to existing renal dialysis facilities that are relocating or adding stations.

E. Criterion 1110.1430.e, Affiliation Agreements

This criterion is not applicable to existing renal dialysis facilities that are relocating or adding stations.

F. Criterion 1110.1430.f, Self Care and Home Dialysis

This criterion is not applicable to existing renal dialysis facilities that are relocating or adding stations.

G. Criterion 1110.1430.g, Relocation of Facilities

This criterion is not applicable to existing renal dialysis facilities that are relocating or adding stations.

H. Criterion 1110.1430.h, Addition of Stations

This criterion applies to an existing facility which proposes the addition of stations at the existing site. The applicant must document that the existing facility has met the occupancy targets set forth by the State Agency, that the proposed project will not adversely impact the workload at any other existing facility within 30 minutes travel time of the applicant's facility, and that a need for additional stations exists in the planning area.

As documented below the applicant is currently operating above the 80% utilization standard as required by the State Agency. The two facilities within 30 minutes of the proposed addition of stations are operating above the required utilization requirement. However, the State Board has recently approved an additional 32 stations in the planning area all within 30 minutes of the applicant's facility. This has resulted in an excess of 9 stations in the planning area.

The applicant has unsuccessfully addressed the variance outlined in 1110.1430.c above, and there is no station need in the planning area. From the latest data available, it appears that the proposed project may adversely impact the workload at other existing and proposed facilities within 30 minutes travel time of the applicant's facility. For the reasons outlined above, a positive recommendation cannot be made under this criterion.

Table II

| Facilities | # Stations | State Inventory | Renal Network |
|---|---|---|---|
| Bolingbrook* | 15 | ------ | ------ |
| Kidney Care* | 8 | ------ | ------ |
| St Mary's Hospital | 25 | 55% | 82% |
| Silver Cross* | 9 | ------ | ------ |
| Silver Cross | 14 | 93% | 93% |
| Silver Cross West | 12 | 65% | 162% |
| Sun-Health Inc. | 11 | 77.27% | 96% |

* All were approved in 1999 and are within 30 minutes of the applicant's facility.

** Within 30 minutes of the proposed addition of stations.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

I. Criterion 1110.1430 i., Quality of Care

The applicant provided documentation that 62% of the patients treated for the 12 months of 1998 achieved a urea reduction level of 65% or better. In addition 77% of the patients treated for the 12 months of 1998 achieved a hematocrit level of 31% or better.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES <u>NOT</u> APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

VII. <u>Review Criteria - General</u>

A. Criterion 1110.230.a., Location

This criterion is not applicable.

B. Criterion 1110.230.b, Background of Applicant

The applicant has certified "that it has not had any adverse actions taken within the last three years of submission of this application." The applicant has demonstrated that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

C. Criterion 1110.230.c., Alternatives

The criterion states "that the applicant must document that the proposed project is the most effective or least costly alternative. Documentation must consist of a comparison of the proposed project to alternative options. Such comparisons must address issues of cost, patient access, quality, and financial benefits in both the long and short run."

The applicant has documented that it has considered alternatives to the proposed project. The alternatives discussed included maintaining the status quo, increased hours of operation, referral of patients to existing facilities, and the utilization of unused space at Sun Health Inc. Dialysis Center. All but the last were rejected because they did not meet the needs of the community. However, because the variance to station need was not addressed successfully, the alternative of utilizing unused space at the existing facility does not best meet the needs of the planning area.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

D. Criterion 1110.230.f., Need for the Project

The calculated station need shows that an excess of 9 stations exists in the planning area and the applicant has not successfully addressed the variance to station need outlined above; therefore, a positive recommendation cannot be made under this criterion.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

E. Criterion 1110.230.g., Size of the Project

The applicant must document that the proposed project does not exceed the norms for project size established by the State Agency, and that in the second year of operation the annual utilization of the beds or service will meet or exceed the target utilization

The applicant stated that the facility will comprise 4,276 GSF. This is 267 GSF per station. This is reasonable when compared to the State Agency standard of 470 GSF per station. The applicant provided utilization data for the second year after the addition of stations. According to the applicant the facility will be operating at 83.5% utilization by the second year after the addition of stations. However, according to our review of the data, the applicant will be operating at 70% utilization by the second year after the addition of stations. Our utilization calculation is based upon the 16 stations operating three shifts per day six days a week fifty-two weeks a year. The applicant has not documented conformance with this criterion.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

VIII. Review Criteria - Financial Feasibility

A. Criterion 1120.210.a., Financial Viability

The applicant provided the following responses to the State Agency request for financial information;

*"In any state with or without mandated Certificate of Need (CON) legislation, the developer/applicant of a new business, facility or healthcare service is 100% at risk to market pressures because the respective State Health Planning Authority assumes no liability for favorable or adverse CON decisions to affected parties.*

*"According to the current CON legislation in Illinois, I could have added two ESRD stations per year for the past three years for a total addition of six without a CON, and I am only requesting approval for 5 additional ESRD stations in Project #99-046.*

*"This is a non substantive CON project that will be privately financed out of cash-on-hand and future operations.*

*"I had offered to provide a Letter of Credit from my bank to assure the Planning Board that Sun Health, Inc. has the wherewithal to complete the proposed project. Sun Health Inc.'s Medicare Cost Reports are readily available.*

*"The criteria and standards for required financial information need to be reviewed and revised with limited scope, higher exception threshholds and less unnecessary paperwork to reduce the cost of preparing a CON, and waived completely on some projects.*

*"Based upon the same rationale that Long Range Plans are no longer required for a CON, an applicant should not have to share proprietary business and financial information that is not necessary with their competitors to determine if a project is financially feasible.*

*"Detailed financial information about privately funded ESRD facilities should not be necessary because payments for Medicare and Medicaid have been essentially frozen for over twenty years. All types of insurance automatically convert to Medicare as the Primary carrier after 30 months. There is a very limited opportunity to raise rates on the few remaining insurance products due to intense competitive pressure from large insurance companies, managed care conglomerates and major employers.*

*"Sun Health, Inc. has been in operation over seven years, is privately financed and should not have to share its proprietary financial statements with the public and its competitors. If approved the proposed CON projects # 99-046 will be financed out of cash on hand and operations."*

The applicant has not provided the information required by this criterion despite State Agency requests; therefore, the State Agency must make a negative finding under this criterion.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES <u>NOT</u> APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

B. Criterion 1120.210.b., Availability of Funds

Without proper supporting documentation from the applicant that sufficient cash and securities are available, a positive recommendation cannot be made under this criterion. The bank letter shows an account balance of $160,000 which is not sufficient to fund this project.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES <u>NOT</u> APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

C. Criterion 1120.210.c., Start-Up Costs

The applicant has stated there is no start up costs.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

IX. Review Criteria - Economic Feasibility

A. Criterion 1120.310.a., Reasonableness of Financing Arrangements
B. Criterion 1120.310.b., Terms of Debt Financing
C. Criterion 1120.310.c., Costs of Debt Financing

According to the applicant cash and securities will be used to finance the project; therefore, these criteria are not applicable.

D. Criterion 1120.310.d., Reasonableness of Project Cost

Preplanning Costs - These costs amount to $7,500. This appears reasonable when compared to other projects of this size.

Modernization Contracts - These costs amount to $75,000. This amount appears appropriate when compared to previously approved projects. The State Agency does not have guidelines for the modernization of Esrd projects.

Architectural and Engineering Fees - These costs amount to $3,000 or 4.0% of modernization costs. This amount appears reasonable when compared to the State standard of 10%.

Consulting and Other Fees - These costs amount to $8,500 or 6.77% of modernization costs. This appears reasonable when compared to other projects of this size.

Equipment - These costs amount to $71,000 or $19,400 per station. This amount appears reasonable when compared to the State adjusted standard of $26,307.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

E. Criterion 1120.310.e., Resultant Operating Costs

The applicant has projected the following operating costs per treatment to be $106.16 for year 2000.

Table III

| Category | Amount |
|---|---|
| Salaries | $776,200 |
| Benefits | 194,100 |
| Supplies | 940,600 |
| Total | 1,910,900 |
| Units of Service | 18,000 |
| Cost per Unit | $106.16 |

The costs for hemo-dialysis appear reasonable when compared with the adjusted State standard of $110.33. The cost of epogen has been included in the supply costs shown above.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

F. Criterion 1120.310.f, Capital Costs
G. Criterion 1120.310.g, Non-Patient Related Services

These criteria are not applicable to this project.